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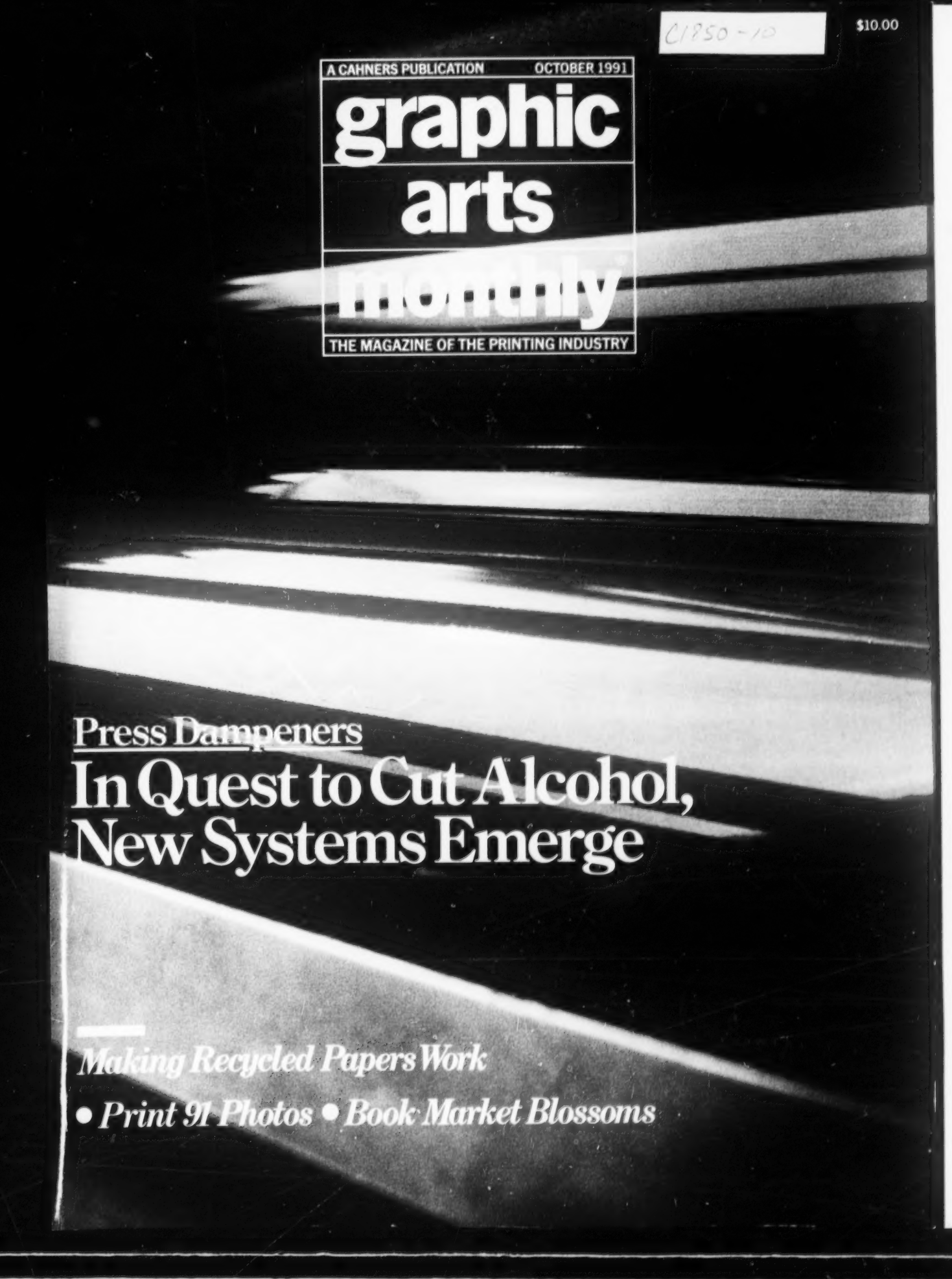
A CAHNERS PUBLICATION OCTOBER 1991

graphic arts monthly

THE MAGAZINE OF THE PRINTING INDUSTRY



Press Dampeners

In Quest to Cut Alcohol, New Systems Emerge

Making Recycled Papers Work

• Print 91 Photos • Book Market Blossoms

VOLUME 63, NUMBER 10

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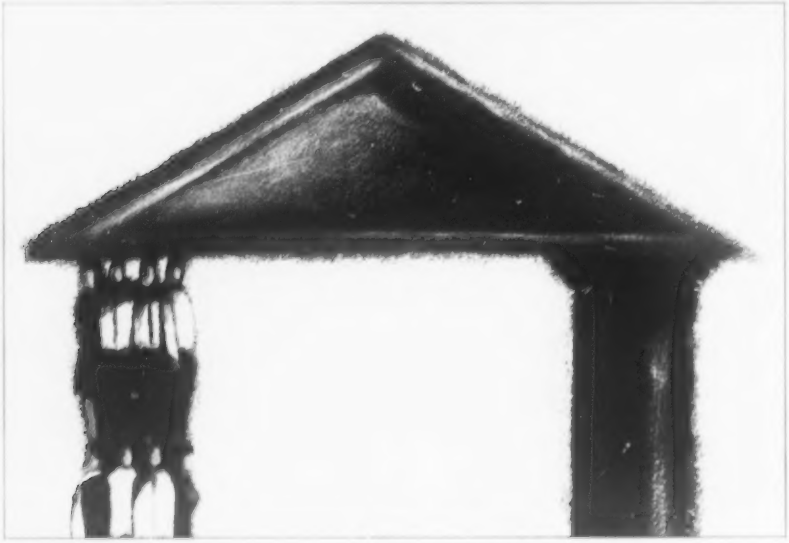
TOTAL CIRCULATION: 99,585

FEATURES



page 52

Dampeners Diversify
As ductors decline, brush, spray, and pulse styles gain ground in the quest to reduce alcohol use. 34

Print 91 Bolsters Confidence
Displays of 850 exhibitors filled upwards of 800,000 sq ft at the industry's biggest event this year. 42

New Age for Recycled Paper
By Lisa Cross
If people ask, 'Are all virgin papers perfect?', the answer is often no. 45

Building on People Skills
By Bridget Kinsella Arajs
Printers today are paying closer attention to who they hire and how they invest in their training. 52

Book Market Bruised: Short Runs, Less Inventory
By Debora Toth
Soy-based inks and recycled papers are being tested by publisher and printer. 56

Print Market Trends
The Mid-Atlantic Region 59

Scanners Need Skilled Operators
By Bill Esler
While CCD units have vast capabilities, user skills are lagging. 67

FOCUS ON DESIGN

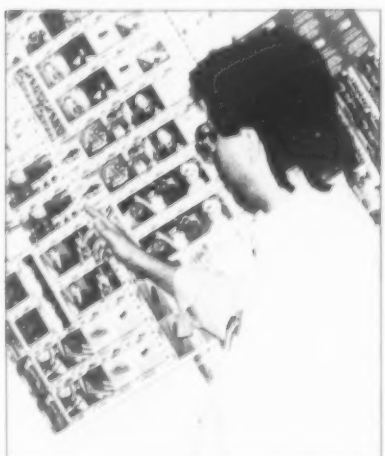
The Goal Is Happy Customers
79

IMAGING CENTER

One Year Old, Going On Two
84

PREPRESS IMAGING

A Brave New Imaging World
By Donald Carli
88



page 79

Contents continues on page 5

On The Cover: Photograph by Warren Faubel, Black Star, at Welsh Graphics, Pasadena, Calif.

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Vice-President and Publisher Ronald C. Andriani

Editor Roger Ynostroza

Managing Editor Michael Karol

Associate Editors Earl Wilken, Lisa Cross

Assistant Editor Bridget Kinsella Araps

Art Director Karen Lehrer

Production Editor Mick Andreano

Special Projects Manager Peter Johnston (212) 932-3368

Project Editor Debora Clesh Toth

Midwest Editor Bill Esler (312) 226-4641

Contributing Editors Kenneth Garner, Dick Gorelick, George Griffin, Gerald Silver, Nancy Plowman, Theodore Lustig, Jeff Rothstein

Classified Advertising Manager Kevin D. Thomas (212) 463-6843 Maureen Lewis, Assistant

Direct Marketing Manager Richard Negri (212) 463-6827

Business Manager Jerry Arotsky

Contracts Jeffrey Rothstein

Production Manager Daniel Coakley (212) 463-6545

Promotion Manager Dorian Torregrossa

Research Manager Angela Venturino Darchi

Publisher's Assistant Holly Hoffman

Sales Administrator Elisa Balsamo

Bulk Reprints Carol Bien 1-800-323-4958

Supplement Reprints Cathy Dionne 1-800-523-9654

Group Circulation Manager Eric Schmierer (303) 388-4511

Subscriptions/Back Issues 1-800-637-6089

249 W. 17th St., New York, NY 10011
Sales offices: (212) 463-6828
Editorial offices: (212) 463-6834
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UPFRONT

Mailbox	8
Editorial	10
Business Outlook	13
Market Watch	14
Graphic Arts Index	14
Sales Activity	16
Washington Briefs	18
Mergers & Acquisitions	20
News	22
Calendar	25
People	29
Companies	31

COLUMNISTS

Selling Yourself George Griffin	92
Marketing Dick Gorelick	96
Type & Design Michael Karol	98
Paper	100
Ink Theodore Lustig	102
Estimating Gerald A. Silver	106
Quick Printing Jeff Rothstein	108
Sales Talk Kenneth P. Garner	112

DEPARTMENTS

New Products	116
Literature	127
How'd They Print That?	132
What's Ahead	134
Classified	135
Index to Advertisers	162

Marketing, page 96

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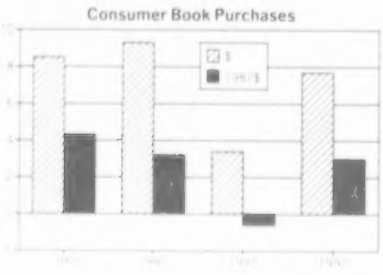
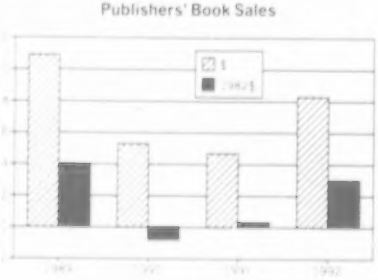
Consumers Cut Book Spending



Consumer spending on books has been particularly slow since the start of 1991. This comes as little surprise given the overall slowdown in the consumer sector. And, compared to spending on other discretionary items, spending on books remains relatively stable. In the first half of the year, consumers spent 4% more on books than last year. However, unrelenting book price inflation ate up most of this gain.

As a result, inflation-adjusted spending rose 0.3% in the first half of this year, compared to 1990. Real spending in the second quarter alone posted the first quarterly spending decline since 1986. Consumer spending will continue to show moderate growth through the middle of 1992 before picking up the pace. Cahners Economics projects consumer spending on books to increase 3.6% by year-end 1991, to total $12.87 billion. In 1992, spending is expected to increase 7.7%. Adjusting for inflation places these growth figures at -0.6% for 1991 and 3% for 1992.

Book Publishers' Sales Sluggish



Book publishers have suffered from the effects of the economic slowdown and consumer spending cutbacks [for a look at current trends in the book printing and publishing markets, see the Print Market Report on page 56]. While publishers' sales rose 5.3% last year to total $15.4 billion, inflation adjustments show sales declined 1%. Compared to the same period last year, book sales increased 3.8% in the first six months of 1991. In inflation-adjusted terms, however, it turns out that sales actually declined 1.6% during the same time period. Adjusting for the seasonality of book sales, publishers' book sales have actually increased in the past couple of months, following a particularly sluggish performance in the first quarter of 1991. A slow but steady turnaround should continue through the end of 1991. Book sales are expected to rise 4.7% in 1991, most of which will likely be price increases. Real sales will be on the rise, gaining 8.3%, or 3% in inflation-adjusted terms.

As shown in the datatable, the book categories that have had vigorous sales are juvenile trade and mass market paperback, posting gains of 4% and 6.5% in the first six months of 1991. These two categories will continue to lead the industry in sales growth over the next few years. Meanwhile, textbooks are headed for sluggish times, as school budgets tighten. Professional books are having a tough year, also, but will resume a healthy growth pace in 1992. College textbook sales will pick up next year, mainly from the hefty price increases.

PUBLISHING END MARKET INDICATORS

				Annual Percent Change			
Consumer Spending (1)	**1989**	**1990**	**1991**	**90**	**91**	**92**	**93**
Books	11.99	12.35	12.87	3.3	4.4	7.7	7.2
Mags. & News	18.47	20.20	20.68	9.2	2.4	5.6	4.5
Consumer Spending (2)							
Books	8.20	8.36	8.41	2.0	0.6	3.0	2.6
Mags. & News	13.37	13.93	13.93	4.2	4.2	1.5	0.2
Publishers' Sales (3)							
Total	14.66	15.44	16.36	5.4	6.0	8.3	5.8
Adult Trade	2.72	2.87	3.03	5.5	5.5	10.1	7.2
Juvenile Trade	0.90	1.02	1.06	13.3	3.8	9.0	8.7
Mass Market	1.09	1.15	1.21	5.9	5.0	9.1	6.4
Professional	2.69	2.76	2.83	2.7	2.2	8.1	6.9
K-12 Texts	1.98	2.02	2.12	2.1	4.6	4.0	5.3
College Texts	1.84	1.99	2.04	8.1	2.6	5.6	5.6

Book Market Bruised
Short Runs, Less Inventory

Soy-based inks and recycled papers are being tested by publisher and printer.

Fall is traditionally the biggest season for book publishers and printers. New titles from blockbuster authors are introduced, consumers are searching for a good read after the summer months, and the Christmas gift-giving season is approaching.

But this fall, publishers and printers are not expecting a sharp upturn in book sales, due to the continuing recession; nor do they expect a rise in the number of new titles, due to the onslaught of mergers and acquisitions. Book printers, in particular, are feeling the pinch as publishers reduce the number of new titles and shorten run lengths to lessen inventory. In fact, in 1990 there were 44,218 (according to *Publishers Weekly*) new titles published in the U.S., much less (in fact, 17.2% less) than the 53,446 new titles published in 1989. A spokesperson for the magazine notes this was the first "significant" drop in decades.

"Publishers are pushing in a number of directions," says Martin Edwards, president of Edwards Brothers, a sheetfed and web book printer headquartered in Ann Arbor, Mich. "To shrink inventory and to shrink costs, publishers are reducing first time orders and asking for faster reprints and just-in-time printing."

By Debora Toth
Project Editor

As print runs are reduced, book printers are finding their margins reduced. "In the consumer and trade market, there has been general improvement over the last year, but publishers are faced with greater pressure to market each book," says Gary Davis, vice president of marketing in the book division of R.R. Donnelley. "Publishers need to squeeze more out of the manufacturer. Margins are down and some printers are suffering out there."

To keep competitive, printers are updating their prepress departments, installing faster makeready equipment, and computerizing order and distribution facilities.

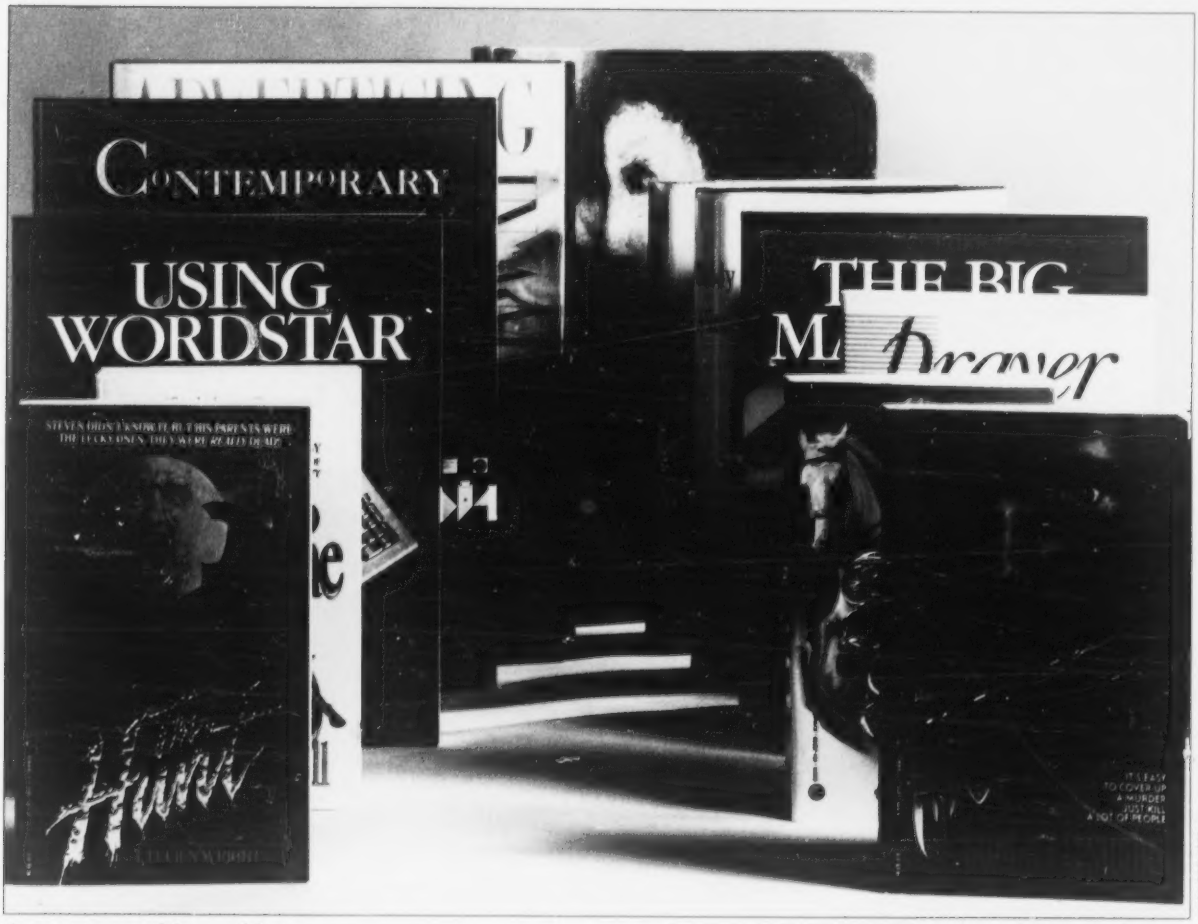
"Prepress is changing very rapidly," says Paul Alms, vice president of business development for Rand McNally. "Our problem is finding out which way it will go."

Desktop publishing, once used only in computer books, is growing across-the-board as publishers strive to lower overall costs. "Desktop publishing helps publishers save money," affirms Perry Rindfleisch, vice president of marketing and sales for the Banta Company. "Desktop bypasses book cover makeup and mock-up. Artists can draw the diagram on the computer, off-load it in digital form, and produce film."

Rather than buy new equipment and train a staff, Edwards Brothers bought a typesetting shop in December 1990 called Impressions, based in Madison, Wis.

Color continues to be a trend in the book arena, particularly in college and professional books. Nontraditional applications, such as color math books, are being introduced, and publishers use color as a marketing tool to attract sales.

And though the student population is rising—an estimated 44 million new students by 1995 in kindergarten through elementary grades—text book units are only slightly up, or flat, across



Peter Neumann

the country, and fewer titles are being published. Mergers and acquisitions are causing publishers to discontinue overlapping textbooks; state and local school boards, facing less revenue, are extending their school book buying cycles or looking for alternatives to textbooks.

"Texas and California are the two states spending the most for textbooks," says Banta's Rindfleisch. "But they are looking into CD-ROM material and student learning centers stocked with videotape."

Adds Donnelley's Davis, "Although there will be 400,000 new students added, primarily in the elementary grades, state expenditures are only estimated to rise in the 1% range. Schools are looking at floppy disks and CD-ROM rather than books."

For the past year, R.R. Donnelley has been offering its Books-On-Demand program to the college market through its affiliation with McGraw-Hill. The program allows professors to pick and choose chapters according to their course curriculum, giving the professor a custom-made text book. In addition, Donnelley can append any other course material, such as notes or papers, to the text book.

"Although we started it for the college market, it has applications across the board," says Gary Davis. "The initial trials were only for soft-cover books, but we have hard-cover capabilities as well."

With the shift to shorter press runs, printers are installing sheetfed equipment beside established web presses to straddle the market. "We are seeing a change in counts," says Donnelley's Davis, "but web is still competitive. There is a crossover where sheetfed is more favorable and we've opened our first sheetfed facility. We have to ask ourselves, though, 'Is this a long-term trend for publishers or just short-term managing of their assets?' "

Sheetfed shops, such as Edwards Brothers, are straddling

Typical Products

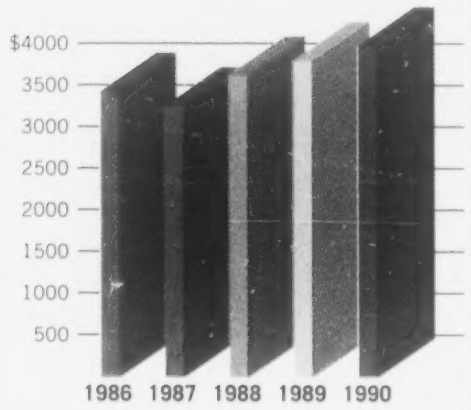
El-Hi Text Books
College Books
Religious Books/Bibles
Professional Books
Mass Market Books
Trade Books
Encyclopedias
Manuals

Typical Users

Book Publishers
Software Publishers

Book Printers

1990 Print Sales: $3.965 (millions) [e]



Book Printers

Rank	Company	Sales in millions*
1	R.R. Donnelley & Sons Co.	507.0
2	Arcata Graphics Company	331.3
3	Banta Corporation	182.0
4	Rand McNally	170.0
5	Ringier America Inc.	150.0
6	Jostens, Inc.	149.0
7	Bertelsmann Printing & Mfg.	96.0
8	Courier Corporation	88.0
9	Herff Jones, Inc.	80.0
10	Maple-Vail Book Mfg. Corp.	75.0
	Taylor Publishing Co.	75.0

*Note: Preliminary Ranking e = estimate Source: PrintMarkets

Chart by Associates Ltd/Pkt

the market the other way by installing webs. A new one-color Timson web press was installed at Edwards Brothers last month.

Even in postpress, changes are taking place. Fullfillment and distribution, an area usually handled by the book publisher, is being switched to the book printer. "The publisher doesn't want to warehouse books anymore," says Banta's Rindfleisch. "With PubNet, a sophisticated computerized ordering system, small and large book shops can order books on demand. We're heading to the point where publisher, printer, and bookseller will be connected by computer, placing orders and invoicing on-line. Technology is improving so much that within this decade I predict printers will be able to print a book in a week on demand, giving publishers cost benefits and better inventory management."

Rindfleisch admits that Banta is looking at offshore printing sites, but no deals are finalized, while it continues to look in the acquisition area. R.R. Donnelley continues to expand its distribution facilities. Says Davis, "Our focus has been to be more than a printer. We want to be a full-service company. We've always done a great deal of distribution and that continues to be a great growth area."

Since the recession began, book printers are seeing increased competition from other types of printers who need to fill press time. "I call them mischiefmakers," says Martin Edwards, president of Edwards Brothers. "They are printers from other niches, such as advertising, that don't have enough work to fill their presses, so they're cutting costs to entice publishers to place orders with them, and taking away our book business. At our company, we started to see a downturn in early March through late June. We're starting to operate more broadly in the professional and medical field printing technical journals."

Another area of concern to both publishers and printers is ecology. Soy-based inks and recycled papers are being tested by publisher and printer, while paper manufacturers race to introduced new products that meet the Environmental Protection Agency guidelines of 50% minimum preconsumer wastepaper fiber. "We're quite capable of using soy-based inks and manufacturing with recycled paper," agrees Donnelley's Davis.

Other publishers see opportunity in different areas. Banta Company recently purchased Bushman Press, a sheetfed documentation printer based in Provo, Utah. Bushman, a 10-year-old company specializing in computer documentation for the software market, produces softcover books and meshes well with Banta's Information Services Group.

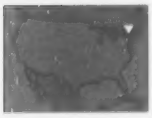
One of the most optimistic areas for growth is in the juvenile book market. Year-to-date sales are up 5.8% over the same period last year, reflecting a trend among baby-boomer parents to purchase high-quality color books for their own children. "In the past year, we've seen an upswing with upscale parents buying nice-quality children's books, such as pop-up. They're willing to spend the extra money," says John Ayer, sales/marketing coordinator at Stratford Automation Inc.

To capture the juvenile and professional market, R.R. Donnelley opened a printing plant in Reynosa, Mexico in April 1991 [see GRAPHIC ARTS MONTHLY's December 1990 issue]. The sheetfed plant employing 350 caters to short-run book jobs. Its strategic location across the Texas border allows Donnelley to bring raw materials into Mexico, pay low labor costs, and truck, rather than ship, the books into the U.S. Its aim is to acquire some market share of the juvenile book printing being done in Asia and other parts of the world.

Book printers are facing a changing marketplace: losing shelf space in libraries, cuts in textbook spending from local and state school boards, and being asked to reduce lead time and print books on demand in the trade and retail markets. Those printers locked into the publisher and bookseller's pulse are the ones likeliest to grow, despite the vagaries of the economy.

graphic arts monthly

After the Fall, A Sluggish Climb



There are only three states in this region: New York, New Jersey, and Pennsylvania. You'd think that a certain sameness would exist, that these three states, nestled together as they are, would be a great deal alike.

But you'd be wrong if you thought that. For example:

The State of New York consists of small cities and towns, vast rural areas, and the city of New York, where around 60% of the state's population lives.

Pennsylvania, by way of contrast, is a rural state with Philadelphia at one end, and Pittsburgh at the other. In fact, Philadelphia and Pittsburgh are the only cities in the state with populations of more than 100,000—a situation that deeply affects Pennsylvania's political and economic life.

This brings us to New Jersey, which is wildly different from its neighbors and is in some ways the most interesting of the three. Look at the population and migration figures. New York and Pennsylvania have both lost population, and if you look at New Jersey's numbers you can see where a lot of them went. They didn't leave the region, they crossed the river.

New Jersey is the classic suburban state. This has led to a lot of unkind jokes about New Jersey, but in fact the state is strangling on its own success. The population density of New Jersey is 1,020 people per square mile, which puts it not only way ahead of New York (375/sq mi) and Pennsylvania (265/sq mi), but of India (538/sq mi) as well. There are more densely populated places than New Jersey—Bangladesh (1,579/sq mi), for example—but by most standards it is *packed*.

Which is tough if you want to be a rancher, but from the point of view of the printing industry it's not so bad. In fact, the vast bulk of the printing industry in this region is contained in a corridor about 100 miles long that runs from the northern suburbs of New York City through the entire state of New Jersey to Philadelphia and its suburbs. The Mid-Atlantic is the second largest region in terms of printing volume (the East North Central is far and away the leader).

Jean Wisenbaugh

Like the rest of the Northeast, this region has been in a fairly severe recession for the past three years. There are some signs that the worst may be over, but our research indicates that for the near term, growth will come from steady, careful attention to business rather than from any new economic boom.

Inside this detachable fold-out form we present a general profile of the graphic arts industry in the Mid-Atlantic region, a close look at commercial printing, demographic data, and listings of leading printers in major markets. Data sources are given on the charts and tables.

The most revealing portion presents survey results among commercial printers. It shows sales changes from 1989 to 1990, the extent of those changes, profitability and capacity comparisons, and a business perception index.

Reprints of this installation of Print Market Trends may be ordered from Cathy Dionne, Cahners Publishing Company, Reprint Department, 1350 E. Touhy Ave., Des Plaines, Ill., 60018.

By Peter Johnston
Special Projects Manager

Regional Overview

Commercial printing contributes nearly 17 billion dollars annually to the economy of the Mid-Atlantic region, making it an important source of employment opportunity, capital generation, and tax revenue. Of the region's 7,272 printing sites (re PIA; commercial printers), nearly 4,000 are in New York, with the balance divided almost evenly between New Jersey and Pennsylvania. Revenue figures in the charts are in constant dollars; they are not adjusted for inflation. Real industry growth for the region in 1989-1990 was around 3%.

COMMERCIAL PRINTING

Value of Shipments

State	Sales, 1990 ($ million)	% of Region	Sales, 1989 ($ million)	% change (1989-1990)
New York	$6,422	43.7%	$6,040	6.3%
Pennsylvania	4,666	31.9%	4,360	7.0%
New Jersey	3,582	24.4%	3,336	7.4%
TOTAL	**$14,670**	**100%**	**$13,736**	**6.8%**

Source: PIA Economics Department

Printing Sites

State	Sites
New York	3,984
New Jersey	1,655
Pennsylvania	1,633
TOTAL	**7,272**

All Graphic Arts Plants, by Employee Count

Source: GAM 1990 Plant Equipment Market Profile

Charts and graphs by Lisa Hilgers

All Graphic Arts Plants, by Function

Function	# of Plants
Commercial	5,220
Newspaper (w/Commercial)	180
Newspaper (w/o Commercial)	310
Book & Pub	473
Business Forms	146
Converters	456
Noncommercial	1,508
Trade	931
Quick Printers	753

Source: GAM 1990 Plant Equipment Market Profile

DEMOGRAPHICS

As noted on the cover page, there seems to be some shifting of population within the region as well as migration to other areas. (In the early 1980s there was a fair amount of migration to the Southwest, a phenomenon that, due to economics, has largely ceased.) Education levels in the three states reflect their basic demographics—highest in New Jersey, which is primarily suburban, lowest in heavily rural Pennsylvania.

Population

State	Population	Rank
New York	17,772,000	2
Pennsylvania	11,888,000	4
New Jersey	7,619,000	9
TOTAL	**37,279,000**	

Population Changes

State	Change (1980-86)	Net Migration
New Jersey	3.5%	62,000
Pennsylvania	0.2%	-210,000
New York	1.2%	-281,000

Educational Attainment

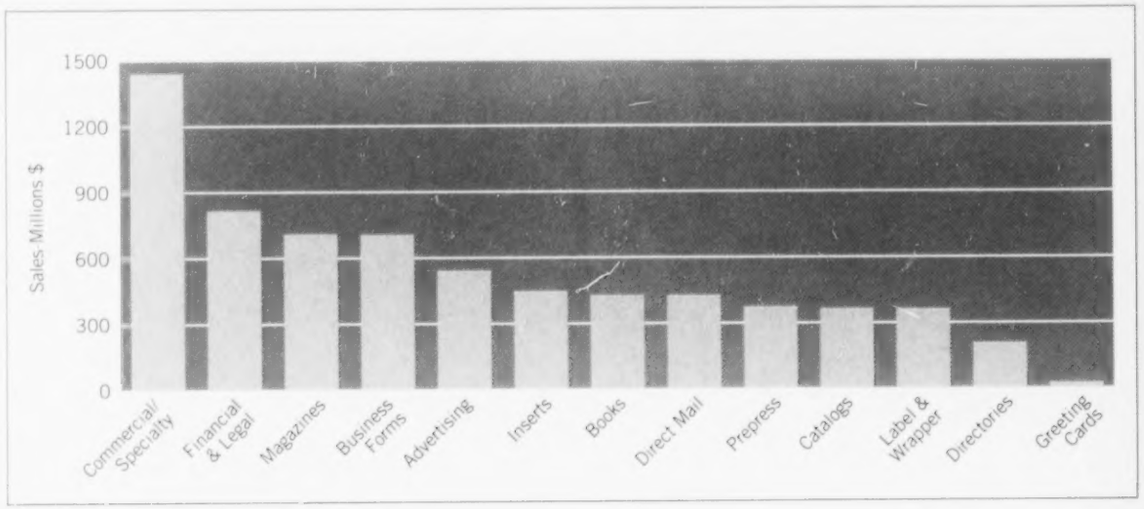
State	High School Graduates	College Graduates
U.S. Average	66.5%	16.2%
New Jersey	67.4%	18.3%
New York	66.3%	17.9%
Pennsylvania	64.7%	13.6%

Source: U.S. Dept. of Commerce, Bureau of the Census

Market Profile

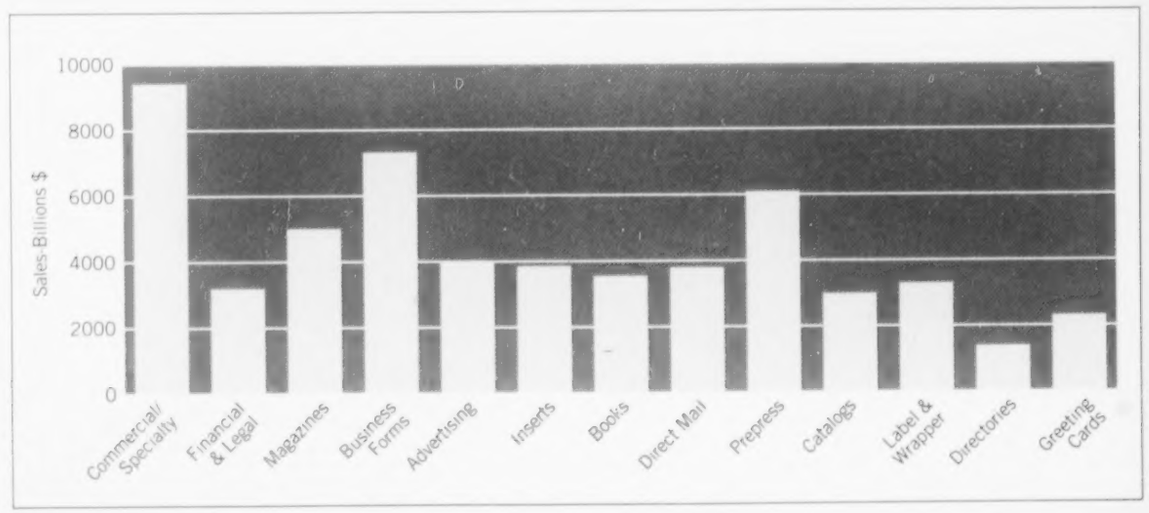
Ranking of Product Segments . . .

This ranking is taken from a data base of larger (20+ employees) plants in the region, with a preponderance of very large sites. Interestingly, prepress, the third-largest segment nationally, ranks ninth in this region, even though the New York metropolitan area is known as a prepress center and has many of the nation's largest separators. One possible explanation of this is the existence of centralized front-end centers for the nation's largest printers in other areas.



. . . Compared to National Totals

These bar charts are presented in similar order to simplify comparison between segment concentration in the Mid-Atlantic region and the U.S. as a whole. Note that the regional importance of financial & legal printing, which is concentrated in a small number of U.S. cities, is not reflected in the national picture, and that greeting cards, labels & wrappers, and catalog printing play a proportionately much smaller role in the the Mid-Atlantic than they do nationally.



Leading Printers in the Region

NEW JERSEY

Able Printing, Cherry Hill
Alford Industries, Ridgefield Park
Arcata Graphics Fairfield
Barton Press, West Orange
Compton Press, Morris Plains
Greater Jersey Press, East Brunswick
Horowitz Rae Book Mfr., Fairfield
Lasky Company, Millburn
Lehigh Press, Cherry Hill
Lincoln Graphics, Cherry Hill
MacNaughton Lithograph, Fair Lawn
Mars Graphic Services, Westville
Meehan-Tooker, East Rutherford
Panorama Press, Clifton
Paris Business Forms, Burlington
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L.P. Thebault, Parsippany
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Ameriscribe Mgt. Svc., New York City
Applied Graphics Tech., New York City
Bowne & Company, New York City
Case-Hoyt, Rochester
Direct Press Modern Litho, Huntington Station
Herst Litho, New York City
Ivy Hill, New York City
Kwik Int'l., New York City
Latham Process Corp, New York City
Master Eagle Graphic Svcs., New York City
Potomac Graphic Ind., New York City
Queens Group, Long Island City
Shorewood Packaging, Farmingdale
Tabard Copley Graphics, New York City
Tanagraphics, New York City
U.S. Banknote, New York City

PENNSYLVANIA

Braceland Brothers, Philadelphia
Brown Printing Eastern, Hanover
Butler Color Press, Butler
Consolidated Revere Graphics, Philadelphia
R.R. Donnelley Lancaster
Globe Ticket & Label, Paoli
Interform Corporation, Bridgeville
International Litho, Philadelphia
Mack Printing, Easton
Maxwell Communications, Atglen
National Publishing, Philadelphia
Panel Prints Inc., Old Forge
Safeguard Bus. Systems, Fort Washington
Sheridan Group, Hanover
Smith-Edwards-Dunlap, Philadelphia

Source: Graphic Arts Monthly, 1991 GAM 101 Listing of Top Printers in the U.S.

How Printers Are Doing

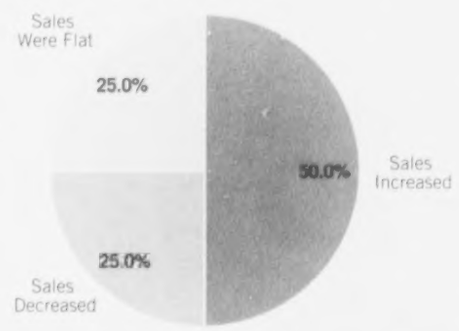
Based on a survey of firms in the region, conducted by Cahners Publishing

Profile of Respondents

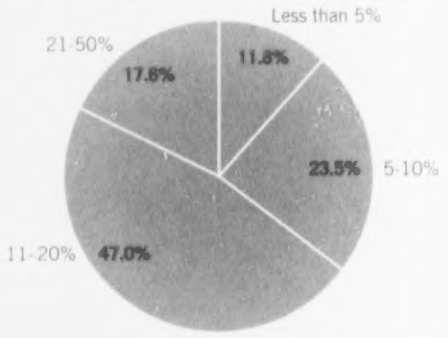
Commercial printers in all regions of the United States responding to a recent mail survey reported year-over-year changes in their annual sales, profitability, and operating capacity. They also revealed how they perceived the outlook for business in their area. The following information is as reported by survey respondents; 1990 gross sales were estimated.

Gross Sales in 1990		# of Employees	
Less than $500,000	7.5%	1-4	2.5%
$500,000-749,000	17.5%	5-9	15.0%
$750,000-999,000	7.5%	10-19	30.0%
$1 million-2,499,999	25.0%	20-49	30.0%
$2,500,000-4,999,999	15.0%	50-99	15.0%
$5,000,000-9,999,999	25.0%	100+	7.5%
$10 million or more	2.5%		

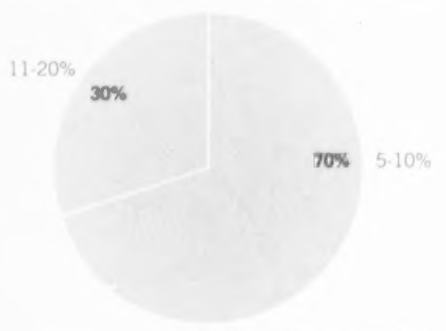
How Sales Changed, 1989 to 1990



If Sales Increased, How Large Was Increase?

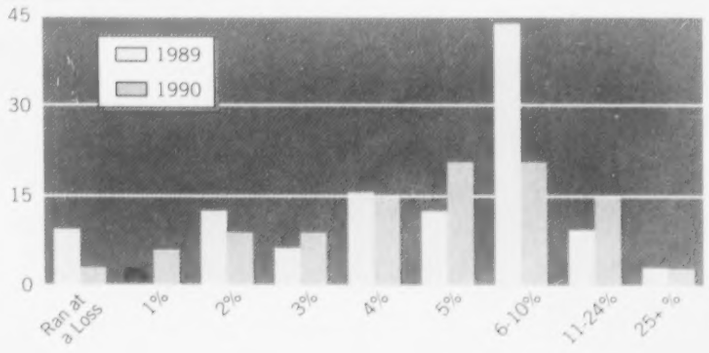


If Sales Decreased, How Large Was Decrease?

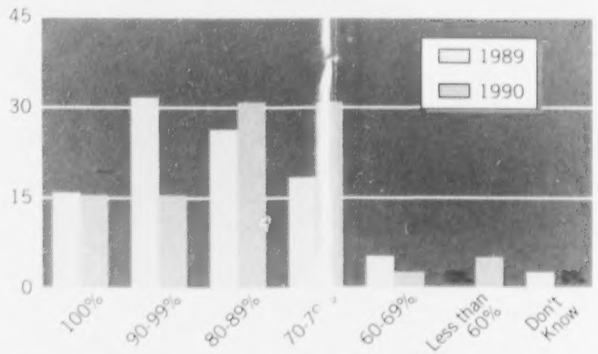


PROFITABILITY & CAPACITY

Profit as a percentage of gross sales



Operating percentage of plant capacity



Perception Index

Comments by Printers

- We're growing at a slower rate than in the past, but still growing.
- Printers from outside this area are penetrating the market and are pricing below cost.
- Business is good in specialty packaging.
- Larger companies are moving out of the Northeast to areas of lower labor and tax expenses.
- Unless you specialize, you are dead.
- Salespeople's comments indicate most print shops are slow.